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AGENCY FOR INTERNATIONAL DEVELOPMENT

DEVELOPMENT ASSISTANCE PROGRAM

FY 1976 - FY 1980

GHANA

Volume I

Part I - Overview

Part II - Strategy

DEPARTMENT OF STATE

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DEVELOPMENT ASSISTANCE PROGRAM - VOLUME I

Part I - Economic, Social and Political Overview

Part II - Strategy and Options for U.S. Development Assistance FY 1976 - FY 1980

GHANA DEVELOPMENT ASSISTANCE PROGRAM

SUMMARY OF CONTENTS

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SUMMARY OF CONTENTS (Continued)

I. ECONOMIC, SOCIAL AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW

A. Developments and Trends in Recent Years

Since the overthrow of the Nkrumah Government in 1966, Ghana's efforts to develop have been hampered by the presence of four key problems:

1. An inability to evolve a development strategy which would impact successfully upon the majority of Ghanaians producing not only an increase in welfare but also an increase in the equity of the distribution of that welfare.

2. A shortage of foreign exchange relative to development needs and an overdependence upon cocoa as an earner of foreign exchange and as a producer of domestic revenue.

3. Rapidly rising government expenditures leading to persistent budget deficits, an undesirable rate of increase in the money supply and a substantial amount of inflation.

4. A massive external debt which Ghana was committed to service out of limited and unstable foreign exchange earnings.

There were strong indications that, after the period of stabilization under the National Liberation Council, the Busia Government was moving towards a set of economic policies that would, over time, have largely overcome these problems. Indeed the critical failure of the Busia Government was not a failure to develop an appropriate strategy but rather a failure to develop a political environment which would produce a broad base of support for such a strategy. The discontent brought about by the sacrifices inherent in the strategy plus the general lack of understanding of the strategy itself strengthened the hand of those who sought for other reasons to overthrow the Busia Government. As a result, the evolution of the Busia economic strategy was halted and the critical problems remained to be solved.

While the National Liberation Council and the Busia Government repudiated the statist, centrally-planned, industry-based economic growth strategy that characterized the Nkrumah era, they experienced difficulty in developing an economic strategy that would impact successfully upon the low income group that makes up the majority of Ghana's rural population. Under both governments large amounts of money were spent to maintain the established standards of salary and benefits of civil servants and amenities for the urban population. While the needs of the rural areas were not entirely neglected, expenditures and programs tended to be directed at the more affluent portion of this sector.

Little effort was made to reach the poor smallholders who make up 82 percent of the nation's agricultural population and produce 80 percent of the nation's food. Because they wield little political influence and are so numerous and dispersed as to be difficult to encourage and support, they tended to receive a low weight in the development equation despite their large contribution to Ghana's output.

Towards the end of the Busia Government there was, however, a growing awareness that the costs of failing to reach the small, low income farmers had been high. Ghana continued to remain dependent upon food imports, real growth per capita was very slight and urban unemployment presented a growing problem. The transformation of the quality of rural life and increased incentives and rewards to agricultural production were receiving greater attention on the part of government policy makers when the coup forced the Busia Government from office early in 1972.

B. The Economy Under the NRC

Overall Economic Performance

Upon coming to power the NRC abandoned the Busia Government's market-oriented approach to dealing with the problems of the external sector and substituted a system of direct controls accompanied by appeals to patriotism and support of the "revolution" as incentives to produce. While this approach was successful in reducing the volume of imports in 1972 and 1973 and in restructuring the composition of the "import bundle," unpublished statistics now

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confirm that the rate of economic growth was reduced as a result.* Quite simply put, it seems unlikely that Gross Domestic Product grew sufficiently rapidly to maintain a constant per capita Gross Domestic Product in the years 1972 and 1973. There seems little reason to expect substantial improvement in 1974.

The Agricultural Sector Assessment provides a detailed review of the performance of this sector over recent years. Suffice it to say here that, considering all the information that is available, it seems likely that the performance of the agricultural sector exceeded the performance of the economy as a whole over the years since the NRC came to power. This is particularly true for the 1973 crop year. This has resulted from the fact that the sector is relatively less dependent upon imports (the reduction of which hurt the performance of other sectors) and from the fact that the NRC has given the sector very high priority and a good deal of emphasis though with a bias toward larger farmers using capital intensive techniques.

Cocoa prices have been favorable recently and this has served to increase substantially the resources available to Ghana's domestic budget and the foreign exchange available for imports. At the same time exports of raw cocoa have fallen in volume since the record year of 1965 (494,000 long tons) with Ghana accounting for a decreasing share of world production. The Government of Ghana is very clearly aware of this problem. A National Cocoa Production Committee was recently inaugurated to examine and seek to solve the economic and social problems which have contributed to Ghana's absolute and relative decline as a cocoa producer. Increases in the producer price (25 percent in September 1972, 20 percent in September 1973 and 25 percent in August 1974) as well as improvements in local purchasing arrangements should provide an incentive to increased production.

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* The Central Bureau of Statistics has deteriorated in recent years. As a result the accuracy and validity of this unpublished data is subject to some question. It seems reasonably safe to assume that it can be used to indicate whether the economy (or a sector) has grown more or less rapidly than in earlier years and it is so used in this discussion. It would seem unwise to use it as a basis of comparison with respect to inter-sectoral performance or for precise determinations with respect to the overall level of economic activity. Accordingly, it is not reproduced here.

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The unpublished Central Bureau of Statistics data cited above also tend to confirm that the performance of the manufacturing sector has been reduced in that its contribution to Gross Domestic Product grew less rapidly in 1972 and 1973 than was the case in earlier years. This has resulted no doubt from the restriction of imports in terms of volume and the restructuring of the composition of the "import bundle" that took place in 1972 and 1973. This reduction and restructuring of imports resulted in shortages of spare parts and raw materials such that the sector could no longer perform as it had in the past.

There was some reason to hope that this situation might improve in 1974 as the GOG allocated ₵619 million for imports this year as opposed to ₵396 million and ₵536 million in 1972 and 1973 respectively. Reports reaching the Mission indicate, however, that shortages of spares and raw materials remain a critical problem for certain industrial activities. This would seem to be due to two factors. First, much of the apparent increase will be required to offset the effects of worldwide inflation. Secondly, and more importantly, there is clear evidence that the import licensing system is experiencing difficulties. As of August of this year imports in 1974 amounted to ₵630 million or an amount in excess of the intended ₵619 million for the full year. This in turn has resulted in a deficit (January-August) of ₵25 million on merchandise account. As a result the GOG has, for the moment, been forced to retrench by canceling 50 percent of the value of all import licenses outstanding (against which letters of credit have not been issued) and by imposing a moratorium on the issuance of new licenses.

In brief, the NRC appears to be encountering the same sort of problems in administering imports that have plagued previous governments. Given the current duty structure and the overvalued cedi, the pressures upon the system are simply too great. As a result, when foreign exchange resources are relatively plentiful imports surge rapidly ahead only to be reduced sharply when the foreign exchange is exhausted.

A rapid and persistent rate of inflation continues to pose a problem insofar as the performance of the economy is concerned. From June 1973 to June 1974 the official national consumer price index for all items rose by nearly 20 percent. Increases in the price of local foodstuffs accounted for some 54 percent of this increase.

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That the lower income group in Ghana has become worse off in recent years is beyond doubt. A stagnant or declining average per capita GDP combined with substantial rates of inflation is certain to reduce the welfare of the lower income group which is least able to protect its position in the face of inflation. Most of the inflationary impact on prices is reflected in the continuing rise in prices of foodstuffs. The urban poor who must of necessity spend a large portion of their incomes on food are thus particularly vulnerable while simultaneously the rural poor who might be expected to respond to the higher prices are prevented from doing so by the inadequacy of their inputs, tools, technology, infrastructure and inefficient access to markets. Clearly, what is called for in terms of both growth and equity is a balanced strategy that provides the urban poor with increased employment and income and frees the rural poor from the impasse in which they are currently caught.

Revenues and Expenditures

The NRC, as was the case with the Busia Government, has not been successful in containing recurrent expenditures and the magnitude of the overall deficit. As Table I shows, recurrent expenditure rose by 25 percent from FY 1973 to FY 1974 and is expected to rise by 33 percent from FY 1974 to FY 1975. A good portion of these increases have resulted from increased personnel expenditures as the government has increased the wages and salaries of civil servants in an attempt to cushion their standard of living in the face of rising prices. The last round of increases alone will cost some ₵30 million. On one point the NRC should be given due credit. The increase in recurrent expenditures would have been even greater had the subsidies on certain essential commodities not been withdrawn at the end of FY 1974.

It can also be noted from Table I that capital expenditures are expected to increase sharply in FY 1975. This increase, if actually realized,* will further contribute to the magnitude of the deficit which is expected to amount to ₵289 million in FY 1975. Such a deficit cannot help but place substantial pressure on the overall level of prices.

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* In years past actual capital expenditure has tended to fall below the level estimated due to difficulties encountered in implmenting the various projects that make up the capital budget.

The new revenue measures announced for FY 1975 are summarized in Table II. As the table indicates they are expected to produce nearly ₵15 million in additional revenues. This is a very small amount in view of the increases anticipated with respect to current and capital expenditures. Table III provides an overview of revenues from domestic sources over the period FY 1973 to FY 1975. While revenues have increased in absolute amount over the period, they have failed to keep pace with increases in expenditures such that the necessity to resort to deficit finance has increased.

Tax effort, as far as non-cocoa receipts are concerned, has very probably declined under the leadership of the NRC as a result of a number of actions which have reduced the tax base and/or the rates imposed. Examples of this are to be found in the elimination of Busia's National Development Levy, the decrease in the average import duty which resulted from the recent revision of the schedule of import duties and the reduction in the rate of tax imposed on gasoline to cushion the impact of the petroleum crisis on Ghanaian consumers. The recent elimination of import duties on sugar will result in a revenue loss of ₵4.4 million as well.

Despite this erosion of the tax base and/or rates the NRC has made a serious effort to improve tax collections. This is particularly true with respect to taxes on Income and Property. Revenue from this source is expected to improve substantially in FY 1975.

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Budget at a Glance
(millions of cedis)

		FY 1973 Provisional Actual	FY 1974 Revised Estimate	FY 1975 Budget Estimate	Percentage Change FY 73-FY 74	Percentage Change FY 74-FY 75
I.	Revenue, Total	413.1	602.1	708.6	45.8%	17.7%
	(a) Total from Domestic Sources	NA	592.9	698.5	-	17.8%
	(b) Total from Foreign Grants	NA	9.2	10.1	-	9.8%
II.	Expenditure	536.8	721.1	997.9	34.3%	38.4%
	(a) All Current Including Interest on Domestic Debt	425.9	531.2	706.9	24.7%	33.1%
	(b) Capital Outlay	101.0	171.1	274.3	69.4%	60.3%
	1. Development Projects	(95.0)	(126.0)	(246.0)	32.6%	95.2%
	2. Direct Investments	-	(6.0)	(17.8)	-	196.7%
	3. Other Capital Payments	(6.0)	(39.1)	(10.5)	551.7%	-73.2%
	(c) External Debt Service	9.9	18.8	16.7	89.9%	-11.2%
III.	Gross Deficit/Surplus (I-II)	-123.7	-119.0	-289.3	-3.8%	143.1%
IV.	Financing Deficit (C+D+E+F)	+123.7	+119.0	+289.3		
	(a) Repayment Internal Loans	15.5	60.8	17.0		
	(b) New Internal Borrowing	48.2	92.0	133.9		
	(c) Net Domestic Borrowing (b-a)	+32.7	+31.2	+116.9		
	(d) Gross Foreign Borrowing	39.3	14.6	7.2		
	(e) Other Capital Receipts	7.7	10.2	6.0		
	(f) Change in Cash Balances (- = increase)	+44.0	+63.0	+159.2		

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TABLE II

Estimates of Additional Revenue from Changes in Taxation

Fiscal Year 1975

(millions of cedis)

Increase in Import License Levy on Imported Textiles	₵ .88
Increase in Excise Duty on Beer	5.74
Increase in Excise Duty on Cigarettes	4.68
Increase in Excise Duty on Mineral Waters	.96
Increase in Standard Assessment Rates	.28
Imposition of Slot Machine Tax	.10
Amendment of Casino Tax	.15
Increase in License Fees	1.49
Increase in Miscellaneous Fees and Charges	.28
Increase in Police Escort Charges and Ferry Tolls	.09
Increase in Gold Export Levy	.20
Total	₵14.85

[redacted]

[redacted]

TABLE III

Trends in Revenue
(millions of cedis)

	FY 1973 Actuals	FY 1974 Revised Estimate	FY 1975 Estimate	Percentage Change FY 73-FY 74	Percentage Change FY 74-FY 75
I. Taxes on Production and Expenditure	255.0	414.8	470.6	62.7%	13.5%
Import Duties	60.7	116.8	118.1	92.4%	1.1%
Export Duties	92.5	173.6	200.7	87.7%	15.6%
Excise and Local Duties	57.9	78.1	100.2	34.9%	28.3%
Miscellaneous 1/	43.9	46.3	51.6	5.5%	11.5%
II. Taxes on Income and Property	99.2	110.0	137.7	10.9%	25.2%
Income Tax	80.0	93.6	121.2	17.0%	29.5%
Minerals Duty	19.1	16.4	16.5	-14.1%	.6%
Property Tax	.1	-	-	-	-
III. Other Revenues	42.0	68.0	90.3	61.9%	32.8%
Interest and Profits	14.3	50.3	73.5	251.8%	4[redacted].1%
Miscellaneous	27.7	17.7	16.8	-36.1%	-[redacted].1%
IV. Total Revenue	396.2	592.8	698.6	49.6%	1[redacted].9%

1/ Primarily composed of sales tax on imported and/or locally produced goods.

[redacted]

Money and Credit

The money supply increased by thirty percent between April 1973 and the end of March 1974. This increase contributed to the persistent inflationary pressures operating in the economy.

With the beginning of the 1973/1974 fiscal year the Bank of Ghana changed the structure of interest rates. The Bank of Ghana lowered its discount rate from eight to six percent and directed the commercial banks to lower their lending rates by two to 3.5 percent with a maximum of ten percent. In order to maintain the commercial banks' earnings, the banks were allowed to reduce the rate of interest paid on time and savings deposits and the small rate of interest that had been paid on demand deposits was abolished. The rate of interest paid on three-month Treasury Bills is now above the rate paid on time and savings deposits, giving the Government an improved position vis-a-vis the banks in vying for private sector funds.

At the same time the Bank of Ghana announced new credit guidelines for the commercial banks for the 1973/1974 fiscal year. Experience over the first six months of the fiscal year indicates that the aggregate increase in credit to the private sector and public entities was pretty much in line with Bank of Ghana guidelines in total. The sectoral distribution appears to have deviated at least initially with nonpriority sectors receiving more than should have been the case. Credit to those nonpriority sectors was, however, relatively low on June 30, 1973, the base date for the 1973/1974 credit program.

Employment*

Ghana's labor force (population aged 15 and over) increased by 1.99 percent a year over the period 1960 to 1970. Ghana's work force (those employed in all industries) increased at a slightly higher rate of 2.04 percent a year. Two important features of this growth require clarification.

First, the increase in female employment over the decade (2.93 percent per year in agriculture and 4.53 percent a year in non-agricultural pursuits) explains about 75 percent of the total absolute increase in Ghana's work force from 1960

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* See Ghana Agricultural Assessment: USAID/Ghana December 1974 by F. Winch and M. Fuchs-Carsch for a detailed discussion of the employment question.

to 1970. Further, the increase in the male labor force is significantly higher than the increase in male employment in all industries.

Second, the proportion of the number employed in agriculture to the rural population decreased slightly over the decade (from 32 percent in 1960 to 30 percent in 1970). However, the decrease in the proportion of the number employed in non-agriculture to the urban population was greater (from 63.8 percent in 1960 to 55.0 percent in 1970). The decrease in the relative number of persons employed in urban areas explains a major part of the decrease in the total number employed in all industries in relation to total population (38.0 percent in 1960 and 36.7 percent in 1970). These facts suggest that rural areas are releasing emigrants at higher rates than urban areas can productively employ.

The extended family is both a cause and a buffer to the effects of migration and unemployment. One of the many factors underlying migration is the number and incomes of relatives residing in urban areas. Urban immigrants typically invest a considerable time in unemployment in the expectation of increasing their relative incomes over time in urban employment. The financial cost of this investment to the immigrant is significantly reduced since he is supported by his urban relatives. However, the social cost of these investments have several important policy implications which will be discussed in respective sector discussions.

TABLE IV

Changes in the Size of Ghana's Labor Force and Labor Utilization by Sex and by Major Sectors - 1960-1970*

	1960	1970	Absolute Change	Annual Percent Rate of Growth
Total Population Above Age 15	3,730.3	4,543.3	813.0	1.99
Female	1,845.8	2,316.3	470.5	2.30
Male	1,884.5	2,227.0	342.5	1.68
Total Employed, All Industries	2,559.4	3,133.0	573.6	2.04
Female	991.4	1,415.1	423.7	3.62
Male	1,568.0	1,717.9	149.9	.92
Total Employed, Agriculture	1,581.2	1,790.8	209.6	1.25
Female	578.9	772.7	193.8	2.93
Male	1,002.3	1,018.1	15.8	.16
Total Employed, Non-Agriculture	978.2	1,342.3	364.1	3.21
Female	412.5	642.5	230.0	4.53
Male	565.7	699.8	134.1	2.15

*Source: Population Census of Ghana 1960 and 1970

[redacted]

Balance of Payments Prospects

The data currently available with respect to Ghana's present and future balance of payments situation must be used with extreme caution. That the import licensing system failed in 1974 to contain imports to levels that could be financed by current export earnings seems clear. The economic and political pressures were too great for the system to withstand the pressure of pent-up demand. At the present time, however, very little is known about the absolute magnitude of the failure or the composition of the imports that this failure permitted. This makes it very difficult to predict the final out-turn for 1974 and infeasible to make an estimate for 1975. The future is also difficult to forecast in the absence of a clearly defined development plan. The Ghana Government is aware of the problems it faces and is working to resolve them.

What follows is based on the best data currently available from the IBRD. Its accuracy is clearly subject to question, however, given the problems that currently exist. It is probably correct to say that this data indicates the type of problems that Ghana faced in 1974 and will face over the remainder of the decade. The magnitude of the problems are highly uncertain and the following thus represents an attempt to describe the situation as it appears on the basis of the best currently available data.

Table V sets forth Ghana's balance of payments performance in recent years. It reveals that during the first two years of its tenure, the NRC was able to hold imports well below their 1971 level.* In 1974, however, as already noted, imports increased to a very high level as a result of pressures upon the licensing system resulting from an overvalued cedi and an inadequate level of import duties. This high level of imports was financed by drawing on reserves that had been accumulated in 1972 and 1973. It is estimated that reserves fell by $131 million in 1974, leaving only $70 million available to cover unanticipated requirements.**

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* And alter the composition of the "import bundle" as well.

** Approximately two months' worth of imports at 1973 levels.

[redacted]

[redacted]

Table VI contains the latest available IBRD projection of Ghana's balance of payments position and resource shortfall over the period 1976 to 1980.* Imports have been projected as those which would be required to support and sustain a real rate of growth in GDP rising from five percent in 1976 to 6-7 percent by 1980. This is a more rapid rate of growth in GDP than had been assumed in earlier IBRD projections and it represents an attempt to make the projection reasonably consistent with Ghanaian development planning goals which would require that GDP grow by 5-6 percent per annum (on the average) over the period 1975 to 1980. The projection takes account of the increased cost of petroleum and the debt relief provided by the recent rescheduling.

Even on the assumption of substantial external assistance in the form of public transfers and public medium and long term lending, the table reveals that Ghana will face substantial resource gaps over the remaining years of the decade. This is true whether or not Ghana decides, or is able, to build up a level of reserves equal in value to three to four months of a growing import requirement over the remainder of the decade. Such reserves would be required if Ghana were to consider liberalizing her system of foreign exchange controls. It is not at all likely that additional assistance will be available to cover this gap entirely. Ghana will have to take certain vital actions herself if she is to have access to the resources required to support and sustain moderate economic growth. More specifically, Ghana will have to sharply limit nonessential imports and replace imports (i.e., notably rice, cotton, sugar) with domestic production to the maximum possible extent. It will also have to expand exports even more rapidly than has been assumed

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* It is not possible to project Ghana's balance of payments position in 1975 as no information is available at present regarding the composition of 1974 imports. If 1974 imports turn out to consist of large amounts of consumer goods, it would be difficult to reduce imports in 1975 without hindering economic growth. If, on the other hand, 1974 imports provide a substantial addition to Ghana's stock of capital, a reduction of 1975 imports would be possible without severe hardship.

in the table attached and encourage foreign investment to the maximum possible extent.* In order to attain these goals, however, the domestic economy will have to be stabilized, inflation held to a minimum, domestic savings encouraged and a set of incentives and supportive policies and programs adopted to make a breakthrough in non-traditional exports. Imports will have to be controlled in a more efficient manner as well.

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* Negotiations are now under way which could lead to an investment of some $150 million to develop Ghana's bauxite deposits and set up an aluminum plant.

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TABLE V

GHANA: BALANCE OF PAY[redacted]

(Million $) 1/

	Actual 1971	Actual 1972	Prov: Actual 1973	Estimate 1974 4/ Millions of U.S.Dollars
1. TRADE				
Exports (f.o.b.)	406.9	440.4	571.2	693.4
(Cocoa Beans and Products)	(263.6)	(275.1)	(344.2)	(451.4)
Imports (f.o.b.)	447.3	255.7	368.2	642.1
Balance of Trade	-40.4	184.7	203.0	51.3
2. SERVICES AND TRANSFER				
Non-factor services (net)	-92.4	-51.4	-70.4	-126.9
Investment Income (net)	-43.4	-24.4	-22.5	-29.8
(of which Interest on med/long debts)	(-15.1)	(- 9.7)	(-9.0)	(-10.3)
Private Transfers (net)	-10.6	-3.5	-6.3	- 6.3
Official Transfer (net)	11.0	18.6	6.7	18.9
Balance on Current Account	-175.9	124.0	110.5	-92.7
3. CAPITAL ACCOUNTS				
Non-Government				
(i) Direct Investment/Reinvested Profits (net)	37.9	10.6	13.3	8.3
a) Receipts	(43.6)	(15.9)	(17.3)	(16.1)
b) Payment	(-5.7)	(-5.3)	(-4.0)	(7.8)
(ii) Short-Term Capital Net (decrease-)	68.9	-53.9	-54.0	5.1
Government Net				
(i) Med/Long Term Loans Net	40.8	34.9	20.7	0.0
a) Receipts	(53.9)	(45.4)	(31.4)	(8.7)
b) Payments	(-13.1)	(-10.5)	(-10.7)	(8.7)
(ii) Sterling & Other Assets Net	-0.1	2.6	-	0.0
4. ALLOCATION OF SDR's	11.2	11.1	-	-
5. ERRORS AND OMISSION (NET)	-0.6	6.8	0.5	-39.9
Overall Balance	-17.8	136.1	91.0	-119.2
Monetary Movement (Improvement -)				
1. Central Bank (Net) 2/	44.7	-113.8	-61.6	
2. Commercial Bank (Net)	-13.1	2.8	-19.2	+130.5
3. Government (Net) 3/	-0.1	-2.0	0.3	
4. IMF (Net)	-32.3	-19.3	-9.3	-6.1
5. Bilateral Balances (Net)	-18.6	-7.8	-1.2	-5.2
Total	17.8	-136.1	-91.0	119.2

Source: Bank of Ghana

[redacted]

1/ Expressed in current exchange rate: ₵ 1.154 = $1.0 and SDR 1.0 = $1.206
2/ Including Monetary gold and SDR's but excluding bilateral balances
3/ Government and other official institutions
4/ Details may not add to totals due to rounding during cedi/dollar conversion.

[redacted]

[redacted]

TABLE VI

BALANCE OF PAYMENTS PROJECTIONS - 1976-1980
(Million $)

(Current Prices and Current Exchange Rate)

	1976	1977	1978	1979	1980
1. Imports (Including NFS)	-1067	-1183	-1317	-1467	-1636
2. Exports (Including NFS)	980	1092	1160	1284	1423
3. Balance of Goods and NFS	-87	-91	-157	-183	-213
4. Factor Services - Total					
a) Interest on Public Debt	-21	-16	-18	-21	-24
b) Interest on Other Debt[a]	17	21	25	30	33
c) Other Factor Services (Net)	-17	-19	-20	-21	-22
5. Workers' Remittances	-	-	-	-	-
6. Current Transfers (Net)					
a) Private	-10	-11	-12	-12	-13
b) Public	10	11	12	12	13
7. Balance on Current Account	-108	-105	-170	-195	-226
8. Private Direct Investment (Net)[b]	5	6	7	7	24
9. Public M&LT Loans					
a) Disbursements	42	52	67	81	90
b) Repayments	-11	-11	-12	-12	-14
c) Net Disbursements	31	41	55	69	76
10. Other M&LT (Net)	-	-	-	-	-
11. IMF Drawings/Facility	9	-9	-9	-9	-
12. Other Short-Term Debts	-14	-14	-14	-14	-
13. Use of Reserves	-38	-28	-34	-38	-42
14. Uncovered Gap (with reserve build-up)[c]	-115	-109	-165	-180	-168
15. Uncovered Gap (without reserve build-up: 14-13-4b)[c]	-94	-102	-156	-172	-159

a/ Interest on other debt is positive during 1976-1980 because of interest earnings on accumulated reserves.

b/ Shown on net basis assuming remittance of profits and dividends amounting to about $15 million a year between 1976-1979

c/ Calculated on the basis of imports required to support growth in Gross Domestic Product of 5 percent in 1976, rising to 6-7 percent in 1980.

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Impact of the World Petroleum Crisis and Inflation

There can be no question that Ghana's development efforts have been set back by the petroleum crisis and inflation. Ghana spent $40 million on petroleum imports in 1973. This is expected to increase to $185 million in 1974 and to $354 million by 1980. In the absence of the petroleum crisis, the relief provided by the recent debt rescheduling plus the new commitments on the part of the donors would have been sufficient to close the resource gap over the remainder of the decade even on the assumption of 3-4 months' accumulation of foreign exchange reserves.

There is little that Ghana can do to effect economies in its consumption of petroleum products as most go to provide essential transportation for goods and people. The bill will simply have to be paid. The real question is whether Ghana can pay this bill and continue to afford the other imports required to support and sustain moderate economic growth.

Ghana's balance of payments will also be affected by the impact of the petroleum crisis on the price and availability of fertilizer and insecticides, though it is impossible to quantify the precise impact. More importantly there is a question of how long the Ghana Government can continue to subsidize the price of fertilizer in the face of continuing increases in its world price. Fertilizer is now sold to farmers at 15 percent of its cost to the Ghana Government. Further increases in the world price would increase the subsidy element and the burden it imposes on government finance. To reduce or remove the subsidy could have far-reaching effects on the output of rice and maize, both crops with respect to which Ghana is aiming at self-sufficiency.

Abstracting from petroleum, worldwide inflation is likely to create difficulties as well. Ghana's small industrial base is highly dependent on imports whose prices are rising. With the exception of rubber (which is not now exported but could be in the future), gold and aluminum, the prices of Ghana's exports are not likely to keep up with the prices it must pay for imports. Inflation will also create budgetary problems for the Government as it attempts to maintain the standard of living of certain income groups through the imposition of retail price controls, responds to pressures for wage increases and seeks to maintain government services in the face of mounting costs.

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External Debt

In February 1972 the NRC Government repudiated certain medium-term external debts (which it held to be tainted with corruption) and announced the rescheduling of the remainder in accordance with IDA terms. In October of 1972 Ghana's creditors met in London and formulated a counter-proposal. Out of a subsequent series of meetings and discussions a final agreement was reached in Rome in March of 1974. This agreement is now in the process of being implemented. This agreement will, unlike previous debt reschedulings, provide Ghana with long-term debt relief within a framework that is consistent with Ghana's earlier public statements on the debt question. The IBRD has estimated that the implementation of this agreement will provide Ghana with debt relief amounting to $168.0 million over the period 1974-1978. Unfortunately, the developmental impact of this relief will be overshadowed by increased petroleum prices and the impact of worldwide inflation.

C. Development Planning and Strategy

The Planning Organization

Some of the most interesting recent developments with respect to planning and strategy concern changes in the structure of the responsible organizations. Early in 1974 the Ministry of Finance and Economic Planning was split into two separate ministries. Colonel Acheampong, Chairman of the NRC, retained his portfolio as head of the Ministry of Finance. Dr. Kwame Fordwor took charge of the day-to-day operations of that Ministry as Assistant to the Commissioner but also retained his position as Executive Director of the Capital Investments Board.

The Ministry of Economic Planning portfolio was vested in Lt. Colonel R.J.A. Felli who formerly held the portfolio for Trade and Tourism. On March 21, 1974, Colonel Acheampong announced the creation of a National Economic Planning Council. The Council consists of thirty-three members drawn from a wide range of experienced people from both within and outside the government. Its creation may be seen as a major effort to bring a maximum amount of talent and experience to bear on Ghana's development problems. Though most of the members will serve on a part-time basis, six permanent members have been appointed to posts in an expanded Ministry of Economic Planning. These changes alone should bring about considerable improvement in economic planning and policy making through a strengthening of the depth of top level leadership in these two key ministries.

Ghanaian Development Strategy

As noted in the following section, the Five-Year Plan is now in an early stage of development. A statement of strategy and guidelines for the plan is scheduled for completion by mid-January 1975. At the same time, however, it is possible from the public statements of Lt. Col. Felli and others to obtain an idea of the probable thrust that these documents may display.

It seems apparent that Ghana will not revert to the development strategy of the Nkrumah era which placed a heavy emphasis on state control over almost all economic activity and the creation of state farms and industrial enterprises.

Rather, the approach to be followed seems more likely to be marked by a "mixed-economy" approach with the Government playing a major role but leaving substantial scope for private Ghanaian initiative and foreign investment.

It seems clear as well that the primary thrust of the Five-Year Development Plan will be directed towards the agricultural sector. It is well understood that agriculture (particularly small-scale agriculture) forms the basis of the Ghanaian economy and hence the foundation upon which the development of the other sectors must rest. This being the case it is reasonable to expect that the plan will give substantial emphasis to ensuring that small farmers have access to credit, fertilizer, pesticides, tools, and implements (with efforts made to ensure that simple implements will be domestically produced) and improved methods. Storage, marketing and transport will also receive a high priority as a part of Ghana's effort to eliminate its food deficit and to produce raw materials for its industry.

The Plan should also give emphasis to the creation of employment, the mobilization of savings and the expansion of exports all of which are areas of critical importance. In a public statement in April 1974 the Commissioner for Economic Planning stressed these points as the main needs of future development policy for Ghana.

Status of the Development Plan

The National Economic Planning Council is currently preparing a set of guidelines for the Five-Year Development Plan. These guidelines will be issued in January 1975. It is anticipated that they will present a comprehensive outline of the development strategy to be followed to the end of the decade. From conversations with Ghana Government officials it seems likely that the guidelines will aim for a real rate of growth in Gross Domestic Product amounting to five to six percent per annum with real government expenditure growing by four percent per annum and consumption per capita by three percent per annum in real terms.

The difficult part in ensuring the success of the plan largely remains to be undertaken, however, This concerns the development of projects and incentives to ensure that the various sectors perform as they must to ensure that the goals of the plan are met. The performance of the Ghana Government with respect to this portion of the planning process will also have a bearing on the assistance strategy of U.S.A.I.D. as the following section indicates.

Implications of the Plan for Sectoral Development

The Five-Year Plan currently under development will have major implications for health and agriculture, the two sectors U.S.A.I.D. has chosen as the primary focus of U.S. assistance to Ghana. The macro and micro-economic policies that are incorporated into the plan will condition the choice of appropriate development strategy for each sector and influence the degree to which U.S. assistance can help to ensure more meaningful participation for the lower income group that makes up the majority of Ghana's population.

With respect to the health sector the issues are relatively straightforward. This is true largely as a result of the fact that the performance of this sector depends largely upon GOG policy and management decisions and only minimally on the provision of incentives to the private sector.

The basic goal of U.S. assistance to the health sector is that of ensuring that the poor majority (particularly the rural poor) have access to health care services of sufficient quality as to ensure their ability to participate meaningfully in the economic life of the nation. This goal is unlikely to be attained unless the Five-Year Plan continues to support the

Ghana Government's announced decision to move away from directing expenditures toward a few modern hospitals in the urban areas and toward more efficient operation of health centers and posts that are accessible to the rural poor. A greater commitment to environmental sanitation and public health services than has been the case in the past will also be required of the health portion of the plan.

It is not only through expenditure policy that the Five-Year Plan will have an impact on the performance of the health sector with respect to the poor majority. Other less direct actions will have an impact as well. The cedi is overvalued and duty rates are insufficiently high as has already been noted. This can very clearly have an impact on health strategy as it makes sophisticated medical technology appear appropriate, affordable and economic when just the opposite is very probably true. Likewise the Ghana Government has adopted a policy of encouraging high minimum wages for unskilled urban labor. This will affect rural-urban migration and hence the location of, the demand for, and cost of health services. If the plan were to provide for an implicit devaluation of the cedi through an upward revision in the structure of import duties and for a policy of restricting urban unskilled wages, planning and development within the health sector would be more appropriate and economic.

The relationship of the plan to the performance of the agricultural sector is more complex. This results from the fact that the performance of this sector depends to a large degree on the response of the private sector to the system of incentives provided by the government.

The basic goal of U.S. assistance to the agricultural sector is to ensure more adequate incomes and welfare for the small farmers who make up the majority of the population engaged in agriculture and produce a substantial portion of the nation's food output. A basic problem in attaining this goal lies in the presence of a number of macro and micro-distortions which have the effect of promoting and encouraging large-scale agriculture. These have been covered in some detail in the Agriculture Sector Assessment recently completed and need only be summarized here.

A major distortion working in favor of large-scale farming is the overvalued cedi. This plus the low rate of duty on agricultural equipment (most commonly a zero rate of duty) provides an implicit subsidy to the large-scale farmers who invest in such equipment. This in turn gives a distorted picture of their true production costs and makes them appear more efficient and economical in comparison with small farmers than would be the case if the subsidy were removed. Also, the overvalued cedi must be supported via a system of import controls which (though other factors are involved as well) makes it difficult for the small farmer to be sure of access to the simple inputs which he requires. This advantage that has been granted to large-scale farmers could be removed through an upward revision in the structure of duty rates and/or realignment of exchange rates.

Another problem concerns the focus of GOG expenditures for agriculture. The GOG has devoted substantial expenditure to the development of the agricultural sector. It is known, in the case of the Upper and Northern Regions, that the lion's share of such expenditure went to support the activities of large-scale farmers (large-scale rice farmers in this case). The picture is very likely the same in other regions as well. What is required is a clear redirection of expenditures towards activities that clearly benefit small-scale farmers such as the provision of extension services, input delivery systems accessible to the small farmer and the provision of basic infrastructure.

There are also problems with respect to interest rates and agricultural credit. The government has set a ceiling of six percent as the maximum rate that may be charged on loans to agriculture. There are indications that the commercial banks are managing to circumvent this ceiling (Barclays Bank is loaning to rice farmers at ten percent) but virtually all of their credit goes to large-scale farmers. The ceiling is certainly enforced for the lending of the Agricultural Development Bank -- the major institutional source of credit to small scale farmers. The ADB is unable to cover its cost at this rate of interest and thus remains dependent on injections of outside capital. This limits the extent of the risks that it can afford to take in extending credit to smallholders.

Not only is the interest rate ceiling a problem from the financial point of view. It is a problem from the economic point of view as well. The opportunity cost of capital in Ghana is currently estimated at 15 percent. Those who receive the credit substantially below this rate of interest (e.g., at six percent) thus receive an implicit subsidy. This subsidy lowers the cost of capital equipment to the large-scale farmer producing effects identical to those produced by the over-valuation of the cedi.

It should be noted that the ADB is handicapped not only by the ceiling on the rate of interest it can charge. It is restricted as to the amount of interest it can pay on deposits to a rate that is less than that which may be paid by commercial banks. As a result its efforts to mobilize capital are at a considerable disadvantage.

In summary, GOG policies with respect to exchange rates, expenditure policy, and interest rates/credit availability as currently set forth give substantially more encouragement and support to large-scale farmers than to small-scale farmers. Unless the Five-Year Plan alters these policies such that some additional support is provided to the small-scale farmer, U.S.A.I.D. will stand little chance of attaining the basic goal behind its provision of assistance to the agricultural sector. It should be noted too that it is not simply a matter of exchange rate, expenditure policies and interest rates. Other policies impinge upon the operation of the agricultural sector as well. The GOG has followed a policy of subsidizing certain agricultural inputs (most notably fertilizer which is subsidized in an amount equal to 85 percent of its cost) which are absorbed predominantly by large-scale farmers. This policy needs revision as well.

<u>U.S.A.I.D. and Economic Policy</u>

In the previous section it was noted that overall economic policy and management can be expected to exert a critical influence upon the performance of U.S.A.I.D.'s priority sectors, health and agriculture. In point of fact it is unlikely that any sector-specific strategy that might be selected in support of U.S.A.I.D.'s basic goals for health and agriculture could succeed in the face of a general economic and management framework that explicitly or implicitly lacked complementarity. The overall economic and management framework cannot be ignored in the process of developing and implementing sector-specific strategy.

At the same time the United States is limited in the direct influence that it can have on the overall economic and management framework as are the other bilateral donors. The IBRD can be expected to have some, though admittedly limited, direct influence over the immediate future. A senior economist from the IBRD is working with the GOG in an effort to increase its perception of the problems it faces and in developing rational and effective solutions to these problems. There is every evidence that the GOG, as it gains experience, is becoming increasingly perceptive in regard to its problems, their implications and their solutions. This has been an evolutionary process in the past, however, and will continue to be such a process.

The inability of the U.S. to exert direct influence upon the overall economic and management framework should not preclude the use of any indirect influence we may be able to exercise (particularly given the importance of the overall economic and management framework to the success of our sectoral strategies). Indeed, such efforts should be seen as highly complementary to our sectoral strategies for health and agriculture.

The Mission's Economic Development Management project represents one aspect of our efforts to exert such an indirect influence. It provides training in aspects of economics and management to mid- and senior-level staff of institutions with significant responsibilities related to the overall economic and management framework. It also provides consultants to such institutions to assist in providing solutions to specialized problems. Finally, it provides for support for local research into problems of special interest to the GOG.

The need for such assistance to the overall economic and management framework is likely to continue into the immediate future. The focus of such assistance may well alter over time. U.S.A.I.D. is currently considering ways in which the resources of the project might be focused upon in-country training for individuals from a variety of institutions concerned with economic planning. Also as the GOG's perception of the complexities of economic planning, policy and management evolves, there is likely to be a greater requirement for the services of consultants and local research.

The Economic Development Management project, refocused as required to meet needs of the highest priority with respect to the overall economic and management framework and regional and rural development planning can make a valuable contribution to the success of U.S.A.I.D. sector-specific strategies for health and agriculture and to the performance of other sectors as well.

D. Prospects for Growth with Equity

As noted above, Ghana's Five-Year Development Plan is still in the formative stage with the elements of Ghanaian development strategy clear only in broad outline. As a result it is difficult to definitely assess Ghana's prospects for growth with equity. It does, however, seem possible to make the following general comments.

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Recent academic research by Irma Adleman and others has provided new insights into the requisites for growth with equity. Adleman and others have found that (worldwide) the few LDCs that have managed to improve the distribution of their income share certain common characteristics.

First, and perhaps most important, the successful redistributors have been those whose economies were expanding. No LDC has been able to redistribute a Gross Domestic Product that was stagnant or growing slowly. The successful redistributors had access to a yearly growth "dividend" which could be used to increase the welfare of the lower income groups without reducing the welfare of the upper income groups.

Secondly, the growth of the successful redistributors was based on labor intensive nontraditional exports. Growth was clearly the critical feature here and not its source. The fact remains, however, that for many, if not most, LDCs the nature of their economies and factor endowments is such that labor intensive, nontraditional exports will provide the most appropriate source of growth in Gross Domestic Product over the short run. As their economies develop and domestic demand broadens and deepens, the growth of the economy will of course become less dependent on the external sector and more dependent on internal savings, investment and consumption as the force behind long-term growth.

Thirdly, the successful redistributors have made a conscious and positive commitment to the redistribution of income. No successful redistributor has followed the "trickle down" approach to income redistribution. On the contrary, the successful have adopted positive policies to ensure that the poor have access to the skills and inputs required for meaningful participation in economic life such as education, health services and housing. The rural poor in particular have been assured access to inputs, improved technology, credit, markets and basic infrastructure.

Can Ghana devise and implement a development strategy incorporating these elements such that growth with equity can become a reality? The evidence suggests that this is possible and that indeed Ghana may be well placed to begin to devise and implement such a development strategy.

Ghana, while not spectacularly endowed with resources, clearly possesses the resource base to support a more rapid rate of economic growth. As already noted, such growth is a

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requisite for an improvement in equity as it generates a yearly "dividend" which can be used to increase the welfare of the lower income group without reducing the welfare of the middle and upper income groups. These groups, which include large numbers of civil servants, are politically powerful and protective of their standard of living.

Given the restricted size of Ghana's domestic market and its factor endowment, growth in Ghana will of necessity have to be based on labor intensive exports (though as the redistribution of growth dividends deepens the Ghanaian market, the relative importance of exports will be reduced). Thus the most important elements of Ghanaian development strategy are those that relate to the expansion of labor intensive exports. Only if such exports expand can Ghana expect to generate growth dividends of a magnitude to offer significant increases in welfare to the lower income group.

The Government of Ghana has taken steps to encourage nontraditional exports. An export bonus of 20 percent has been established and nontraditional exporters have been given a high priority with respect to import licenses. In addition, the GOG has established an Export Promotion Council to promote nontraditional exports. The Bank of Ghana has established the Ghana Export Corporation to assist small producers who might, for various reasons, be unable to export independently. Certain promising nontraditional exports have been identified such as ginger, pineapple, cassava (for starch) and knockdown furniture.

At this time, however, it is impossible to precisely specify the timing, quantities and foreign exchange earnings that might result. A most considerable potential certainly exists, however.

A more important question concerns the adequacy of the present bundle of incentives currently being provided to nontraditional exports. In point of fact they are very probably inadequate to ensure the expansion that is possible and required. Additional steps, particularly with respect to exchange rates and institutional structures, will be required in the future.

As already noted, growth in and of itself will not assure an equitable distribution. A policy commitment to redistribution is required as well. Foremost in importance in this decision to redistribute is a commitment to providing

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the poor with the basic skills they require to participate in the growth process. The time that it takes to develop such skills is a major constraint to the implementation of an equitable growth strategy. Ghana's substantial past investments in human resources should weaken this constraint somewhat though adjustments in the educational system (including nonformal education) may be required to give it a more practical and development-oriented bias.

There may be some benefits from growth that will reach the urban poor directly. If labor intensive exports are expanded they could enjoy increased employment opportunities and access to the goods they require at world market prices. This is likely to be short-lived if the rural poor are ignored as they will leave the farms, depressing urban wages while simultaneously raising the price of food. A positive policy to assure that the rural poor share in the fruits of growth is also essential. This policy must encompass more than an effort to simply encourage the adoption of improved technology. A policy of promoting assured access to inputs, credit, markets and infrastructure is a necessity as well. A substantial portion of the growth dividend must be devoted to supporting such access if equitable growth is to become a reality. At the same time that growth is dependent, especially in the years just ahead, on an adequate flow of resources to start the process. Without both an adequate flow of resources and a set of redistributive policies neither growth nor equity may be feasible.

The conditions required for equitable growth cannot be simply met. A considerable commitment and a willingness to make difficult and perhaps unpopular decisions will be required. The NRC seems increasingly committed, however, to a strategy that will, over time, allow these conditions to be met. Its increased interest in, and support of, small scale agriculture is particularly encouraging in this regard. There is thus reason to hope that not only will Ghana's considerable potential be realized but that the poor who make up the vast majority of the population will receive an increasing share of the benefits.

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SOCIAL OVERVIEW

A. Social Factors in the Development Equation

The Ghanaian economy has a comparatively small, modern and urban sector and its social development reflects this situation. An educated urban elite consisting of not more perhaps than three percent of the country's total population and largely made up of civil servants and military personnel with much smaller components of professional and business people dominate the society. They are the inheritors of both the income and the positions (with the perquisites that accompany those positions) of the earlier colonial officialdom. In the years since independence there has been a strong tendency to perpetuate the dominance and a measure of exploitation by this urban elite of the rural masses which had characterized the pre-independence colonial period. The present government indicates in its public statements that it wishes to break out of this pattern and it gives evidence of attempting to do so though a rapid reversal is not to be expected.

Among the characteristics of the society and the institutions which serve it, the following seem to be among those which most basically affect the potentialities for social mobility and development:

1. The philosophy of education which predominates in Ghana is more traditional than would be desirable and it largely fails to prepare school leavers at most levels for dynamic, technical or developmental roles.

2. Health and family planning services are unduly concentrated in the urban areas and effectively reach less than 30 percent of the total population.

3. The urban population enjoys the major part of government expenditures not only for education and health services but also for other services and infrastructure development.

4. Population is growing at a rate which may exceed three percent annually and the cities are growing at a much more rapid rate with accompanying serious social and economic problems

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exacerbated by the slow rate of growth in the economy in recent years.

5. Problems of malnutrition and disease are serious and there is a continuing high rate of infant mortality despite a steady overall decline in the death rate.

6. The north of Ghana with about 20 percent of the population is experiencing increasing hardship due to the ecological/environmental deterioration in the area which appears to be associated with such factors as increased density of human and animal population, land use practices (which are extremely detrimental resulting in erosion and loss of water resources and of fertility and productivity of the soil), and an apparent adverse climatological trend.

7. Conditions in the rural areas discourage the young (especially the educated) from continued pursuit of the rural and agricultural life and increase the drift to the already overcrowded cities.

8. The same factors as in 7. above deter professionals, more affluent business people and officials from accepting positions in the rural areas which further deters and postpones their modernization and development.

9. The instability of government in recent years and the absence of a coherent, growth-oriented development program has demoralized the Civil Service and rendered it, at least temporarily, unable to make its maximum contribution to dynamic growth.

10. A general absence of modern management concepts in most economic and social institutions thwarts achievement even where reasonable and ambitious goals are set.

Although this set of constraints to development in the social sphere represents a formidable array, there are a variety of other social aspects and trends which are more favorable. Among these are the increasing number of people who, despite the traditional educational patterns, have a modern outlook and aspire to fostering a more dynamic social and economic

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environment. In and out of Government such attitudes are evident and represent a significant leaven in the loaf. Nor is the academic community lacking for such people: modern and activist intellects are at work. The outreach efforts of University of Science and Technology to develop new industries, support cooperatives, etc., attest to the vigor of this movement. Similarly the willingness of the Department of Agricultural Economics at the University of Ghana at Legon to enter into a close working relationship with the Ministry of Agriculture for practical training of management manpower for the agricultural sector is another such evidence. There are also active Ghanaian minds at work in such bodies as the West African Examinations Council who wish to modernize and reform the system. At high levels of Government the declared intent for Ghanaians to shoulder the full responsibility for planning execution of national development is a further healthy and welcome sign. In summary then, there are a variety of developments which strongly suggest that neither apathy nor traditionalism will prevail in the long run in Ghanaian society. These developments are worth supporting and encouraging and give promise of a steadily growing progress towards development.

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POLITICAL OVERVIEW

A. Brief Historical Perspective

Ghana had a seventy year history of colonial administration prior to independence in 1957. Its own cultural, political and social inheritance has been intricately interwoven with that more recent colonial experience to form a mosaic with a variety of assets and some liabilities. Many very modern and highly motivated men and women operate at various levels and staff a wide range of institutions performing numerous functions. But they are beset by rigid colonial patterns, conflicts between the modern and traditional values, and weak management systems and practices (partly inherited from the past) as they pursue progress. Political instability having plagued Ghana since 1966 (with three changes of government) there is at times hesitation in committing the nation to firm policies. Ideological tensions put Ghana in a posture favoring a mixed economy but statist tendencies persist. The controlling civil-military elite have sustained an inherited set of policies which still substantially perpetuates the colonial exploitation of the rural masses. The realities of political life have generally caused the leadership to favor the urban elite and potentially volatile urban workers in the allocation of government funds for amenities and services. Thus, despite a comparatively high average per capita income, the rural masses of Ghana suffer a relatively low standard of life judged by indicators of nutritional and health status. It will not necessarily be an easy or smooth road, therefore, to encourage the adoption of programs and policies to reduce the inequities of income distribution in Ghana.

B. Current Situation and Outlook

Hopeful signs for development-oriented action toward growth and greater equity are, however, discernible. The call by the Head of State for preparation of a Five-Year Development Plan combined with a subsequent speech by the Commissioner for Economic Planning calling for policies to deal with the major economic problems of Ghana are encouraging. In particular his candid recognition of the slow overall rate of growth in the past, of the need for an accelerated rate of increase in food production, more savings, less expenditure of government revenue for recurrent costs and increased exports suggest that this government is determined [redacted] patterns. Still it must be expected that the future will continue to suffer

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from the same tensions as in the past. Greater equity will come slowly and probably only in the context of growth which permits greater incomes among the poorest groups to be achieved without being at the absolute expense of the powerful elite groups. Strategically, therefore, it will be vital not to lose sight of the need to facilitate an adequate resource flow to support a modest rate of growth if we wish to see development which has as its hallmark a substantially greater measure of equity.

II. STRATEGY AND OPTIONS FOR U.S. DEVELOPMENT ASSISTANCE FY 1976 - FY 1980

The U.S. Development Assistance program in Ghana is at a crossroads. In the course of the next year basic decisions will be necessary to define the structure and themes of A.I.D. assistance for the next five years, the period it will take for sound programs to evolve and become fully rooted.

A. Earlier Strategy and Developments

Up until the beginning of 1972, U.S. Development Assistance strategy sought to help bring about a major revitalization of the Ghanaian economy, lifting it out of the doldrums of economic stagnation and declining per capita GNP. Growth rates rising from three percent to six percent were projected for five and ten-year periods ahead. This goal was to be achieved by:

- a major self-help effort by Ghana with fundamental structural reforms of monetary, fiscal and balance of payments policy and practice and the inauguration of a new five-year development plan;

- a generous and final settlement of the medium-term debt problem in the context of development resource requirements;

- establishing the World Bank both as a major donor and as the principal external economic policy advisory agent with resident professional staff, thereby minimizing U.S. involvement and exposure on policy questions;

- assembling a package of external assistance for commitment in 1972 approaching $150 million from several bilateral donors and the IBRD and IMF through the mechanism of the Consultative Group.

U.S. Development Assistance was to have a major role in this program; A.I.D. assistance was focused on the macroeconomic issues with $30 million in program lending envisioned as the U.S. share in 1972 and in successive years. Other A.I.D. programs were sharply curtailed or terminated except for population program assistance. The agriculture program, the area of major U.S. assistance during the previous decade, was reduced to a small project concerned with agricultural policy and planning. In essence, U.S. development assistance strategy was predicated on the belief that there was little that could be accomplished in advancing Ghana's development until major policy reforms were achieved to place the Ghanaian economy on a sound footing. The central theme of this strategy was that only broad based economic reform and liberalization of the economy accompanied by large-scale resource transfers in balance of payments support would create the economic environment and incentives which were the prerequisite to growth. To continue sectoral programs and project activities, particularly in agriculture, in an unfavorable economic environment would be inviting frustration and failure.

From 1969 onwards, after Ghana and the donor group had decided to shift away from the IMF-led stabilization program of 1966-69, the several elements of a development oriented strategy were being pieced together. There is reason to believe that those elements would have fallen into place during the early months of 1972. That prospect came to an end with the military coup of January 13, 1972. The fact of the coup itself brought an end to a parliamentary democracy. The subsequent politically expedient economic decisions -- debt repudiation and unilateral rescheduling, imposed participation on private foreign investors, massive subsidies for "essential" commodities, reversal of the devaluation and other measures -- undermined the structure of the reforms that was being built up. The donors and creditors shelved their new assistance plans, deciding to wait to see what the new National Redemption Council's policies, plans and orientation would be. The basic lines of the earlier development assistance strategy continued, however, to be accepted as sound and it was believed might again be followed as soon as the debt issue was resolved.

B. Current Setting for Development Assistance

Little by little over the past two and a half years there are signs and trends which suggest that the NRC's development policies are moving in more positive development oriented directions. Though clothed in revolutionary rhetoric, more assertive nationalism and self-determination, some of the elements of the earlier strategy are again beginning to fall into place. The heavy political-psychological burden of the debt issue has been eased and for the first time since 1966, Ghana has a generous and final settlement. The donors appear to be as enthusiastic as before and prepared to commit over $100 million over the next eighteen months. The IBRD is now well established as a major donor with the commitment of $25 million in new IDA loans within the last year -- the largest sum for any one year for the IBRD since the early '60s -- and is projecting substantially greater amounts for FY 1976 and beyond. Professional IBRD staff are assisting Ghanaian economic policy and planning ministries. A new five-year development plan is being prepared with completion set for July 1975. Other government actions suggest that step by step the Ghana Government has a growing appreciation of its economic problems and the actions needed to deal with them. This process is, however, still in its early stages. It will be another year before the full pattern of self-help actions emerges. Close-hand observation of the planning process under way raises doubts at times as to how well or whether the task will be completed. However, unlike past efforts, the planning work is being done by Ghanaians exclusively and thus may as a result be more solidly based than at previous times.

For the present the NRC displays a greater interest in action programs in selected sectors than in macro-economic policy considerations. Tangible development activities have more appeal than the subtler, harder to comprehend policies and concepts of the macro-economists, even though recent experience is beginning to force the NRC to appreciate the significance of the latter. Ghana's economic growth and development requires a careful orchestration of both dimensions of development. The success of one cannot be assured without the success of the other. The emerging pattern of development suggests major resource requirements for new infrastructure, for balance of payments support and for specially focused agricultural and rural development programs and related social services. A recent IBRD study suggests that the country requires $100 million each year in additional resource flows if a reasonable growth rate with a greater prospect for equity is to occur. (The Economic Overview section provides a detailed review of Ghana's economic situation and trends.)

During the past two years or so, the interests of the donor community have begun to shift. Prior to the 1972 coup there was an interest in providing major resource transfers in response to Ghana's request for balance of payments assistance. The IBRD was beginning to consider a program loan, and Canada, Germany and the U.K. (the other major donors) were prepared to provide a major part of their assistance in this form. The trend has now shifted and the donor community almost uniformly wishes to concentrate on agriculture and aspects of integrated rural development. The major infrastructure projects in power, bauxite mining facilities, telecommunications, major urban water and sewage systems that are on the horizon do not generate, for concessional term lenders, the enthusiasm of earlier times; at best, harder-term export promotion loans and IBRD conventional financing may be available. At present Program Loans enthuse no one. While in substance the new focus of interest of the donor community corresponds in part with the biases of the NRC, the underlying facts of Ghana's development requirements point to a more comprehensive approach. If the trends of external assistance continue, there will inevitably be a tension between the level and form of resources required for broad based development and what is possible through the more narrowly focused interests of the donors. How does one achieve an annual supplementary resource flow approaching $100 million per annum beginning in 1975 if donor interest is focused on complex low capital use agricultural and rural development or, assuming an interest, on large infrastructure schemes not yet designed?

C. U.S. Development Assistance Strategy and Options

Now that the overriding obstacle of the debt issue has been cleared away and the Government has affirmed its interest in external assistance, what should be the role of U.S. Development Assistance over the next five years or more? Should we attempt to revive and press forward the strategy of the earlier period? How do recent developments in U.S. foreign assistance orientation affect the strategy for Ghana? What alternatives are open to us? What assumptions for Ghana's future can be drawn from recent events? FY 1975 will be a year of active transition and the time when A.I.D. will need to make a basic decision on its development strategy for Ghana. To a limited degree a pattern of U.S. assistance is beginning to emerge on the technical cooperation phase of the program; the full character of U.S. assistance strategy will be reflected, however, in decisions on the provision of financial and capital resources. A review of development assistance strategies suggests four strategy options that should be considered:

Option One - Limited Technical Cooperation Program: Under Option One U.S. assistance would be scaled down to a limited \$2-3 million TC grant program in agriculture, health and population and reduced extension of P.L. 480 Title II MCH assistance. Ghana would also benefit from selected regional projects such as onchocerciasis control to which A.I.D. contributes. The presumption behind this minimum level program is the pessimistic view that there is little prospect of Ghana's having the leadership and stability to tackle the deep-seated and long-range economic and social problems that have plagued the country for so long. The frequent turnover in governments frustrates efforts to help get Ghana's economy on a sound economic footing. In spite of the considerable talented manpower in the country and the reasonably well-developed infrastructure, Ghana's leadership is too weak and uncoordinated to provide concentrated sustained attention to a well-thought-out, consistent, long-term development program. Moreover, the relatively affluent middle class and urban populations are unlikely to tolerate any further reduction in their standard of living, which includes a high propensity for imported consumer goods, in order to provide a substantial increase in savings for investment and to permit a wider sharing of development benefits. Wide swings in cocoa prices will continue to be disruptive to sound economic policy and the Government's control of import demand. This pessimistic view reflects a continuing reaction to the extreme actions of the NRC in its early period after the coup.

The unilateral rescheduling and repudiation of debts, the abrupt demand for participation in many long-established foreign enterprises, the attacks on foreign assistance and the revolutionary rhetoric suggesting a highly authoritarian and statist political-economic orientation still rankle the Western investors and donors. The echoes of these actions, though muted, continue to reverberate. The doubters believe they could come to the fore again; they give little credence to positive trends that have been emerging over the past year. In sum, this option concludes that the Ghanaian political and economic environment for development is not likely to improve sufficiently to justify more than a minimal presence type assistance program, particularly in the light of pressing priorities for limited funds in other less developed countries. At best Option One suggests putting off any consideration of major development assistance and waiting to see what happens.

Option Two - Limited Sector Development: Option Two points to a Technical Cooperation program of $3-4 million in sectors of A.I.D.'s principal interests -- food and nutrition, health and population. It would include $3-5 million sector or capital project loans in FY 1976 and subsequently, but not annually, as the opportunity arises and the Ghana Government presses for them -- a relatively passive stance. The loans would provide supplements to food and health TC projects and be based on fully developed economic and technical feasibility studies. P.L. 480 Title II and participation in regional projects would be encouraged. Option Two presumes a somewhat more positive view of Ghana's situation and the prospects for achieving some development impact in carefully delineated sectors. It disassociates A.I.D. assistance from the larger concerns of what is happening to the country's development generally. It assumes (hopes) that conditions outside the specific sector problems on which A.I.D. is concentrating will be sufficiently favorable to enable A.I.D.-financed programs to achieve their objectives, a point which would need to be verified with each new commitment of sector assistance. The overall level would be deliberately lower. It reflects a continuing skepticism about the overall prospects for Ghana's development and a marked decline in U.S. interest in Ghana compared with the 1966-72 period.

Option Three - Major Sector Development and Support for Growth: Under Option Three there would be a concerted effort to build a Technical Cooperation program of $4-4.5 million aimed at making a substantial impact on root problems in priority sectors of food and nutrition, health and population focused on the poorer rural populations. This effort would be reinforced by a loan program of $10-15 million each year oriented toward major resource transfers in the chosen sectors, particularly food and nutrition, health and related rural development. In so doing, there would be a parallel concern with helping to ease the basic foreign exchange constraint which inhibits Ghana's rate of growth. The underlying theme of Option Three is the importance of working with the Ghanaians both in addressing the problems of increasing the growth rate above the present stagnant levels and in supporting a redirection of resources and services toward the poorer rural populations.

Option Three interprets the trends of the past year as encouraging signs that Ghana is moving toward a more rational and pragmatic approach to development policy and practice. The resolution of the debt issue, the increased bias toward a mixed economy orientation, growing interest in revived foreign private investment and external assistance, growing political confidence and stability of the leadership, a return to efforts to prepare a Five-Year Development Plan, and an increasing concern with small farmer programs and rural development and associated amenities all point to a movement in the right direction which deserves support and reinforcement. This view looks on the heavy stress in rhetoric and in programs on self-reliance as a healthy sign demonstrating a greater self-assertiveness and determination to maximize the benefit to Ghana of the resources at its disposal for the country's development. It recognizes but is not deflected by the inevitability that this new self-assertion will spill over into actions at times that clash with developed and donor country vested interests.

At the same time, strategy Option Three recognizes that Ghana must do a great deal more on its part to demonstrate its determination to carry out a sound long-term development program. For one, the Five-Year Development Plan needs to be completed and evaluated. Accompanying fiscal and monetary policies need to be formed and held to, to correct some of the fundamental and long-standing imbalances in Ghana's external and internal economic condition. In brief, Ghana will need to demonstrate a commitment and capability to carry out a development strategy along the lines outlined in the Economic Overview.

An Option Three strategy would aim to reinforce movement in that direction -- a key difference from Option Two. It would be primarily concerned with sector emphases but also continue to encourage and facilitate efforts toward an accelerated overall growth rate. To commit the level of resources envisioned under this option and not be actively concerned about underlying economic conditions affecting overall growth would be unwise even if policies in the new five-year plan are generally satisfactory and consistent with A.I.D.'s objectives. Thus A.I.D. would need to work closely with the IBRD and other major donors to assist Ghana, through possibly a revived, more palatable Consultative

Group (perhaps focused on agriculture and rural development), to take the self-help measures essential to achieving growth with equity.

Option Four - Major Growth With Equity: A major growth with equity strategy builds on the already established pattern of U.S. assistance to Ghana. It is based on the generally accepted view, as cited in IBRD studies, that a first order of business in Ghana is to lift the growth rate above the present stagnant level of 3% or less. The IBRD projects a possible and desirable growth rate for Ghana as 4% in 1975, rising to 6% by 1980. To achieve this will require a significant self-help effort accompanied by major supplementary resource flows in magnitudes of $100 million per year. Without this boost in growth rate there is little likelihood of attaining significantly greater equity in the country's development. Efforts to induce greater equity will be frustrated and tensions between the more affluent urban and middle income groups and the poorer populations in rural areas and the poorest urban dwellers will be exacerbated. The program for bringing about this boost in growth is essentially the same as the one that was being put together prior to the 1972 coup. To it should be added greater attention to key sector developments which emphasizes economic services and amenities to the least developed communities in the country. The elements of the A.I.D. program would include:

- Expanded Technical Cooperation program with major sector involvement in food and nutrition, health, population and related rural development and specially focused attention in human resources development to improve management capabilities - $4-4.5 million.

- Sector Resource Loans each year in food and nutrition and health and related rural development - $10.0 million.

- Supplementary Program Loan - $10-15 million.

- Regional Project activity and P.L. 480 Title II.

The essential difference between the above program and that of prior years is the increased emphasis on sector development addressing problems of equity.

What does such a program for FY 1976 presume about the situation in Ghana? It anticipates that the trend in Ghanaian economic planning and decision-making will evolve towards sounder policies and programs as the plan exercise progresses. By FY 1976 there would have emerged a pattern of self-help

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actions and external assistance support which would justify the major level of U.S. development assistance outlined. Donor interest in Ghana is reflected in a relatively firm projection of over $100 million in new assistance reported to the Ghanaian Government in 1973 as feasible over the next eighteen months once the debt issue was resolved. An important part of this strategy option is the assumption of a positive U.S. effort to encourage multi-donor cooperation and active IBRD leadership with the Ghanaian Government in putting together the several key parts of a major development program. It accepts the view that the potential for accelerated growth exists in Ghana but requires the catalytic action of Ghana's development plan and significant donor support. With IBRD guidance, building on the Bank's established major lending and advisory role, Ghana and the donors could again come together in a Consultative Group restyled to make it more collaborative and more sensitive to Ghanaian interests and leadership. FY 1976 would be the target year for beginning this new development thrust and the process of bringing it about would need to begin in the coming months. The first step would require exploratory high level discussions with Ghanaian leaders on their views and aspirations for the country's long-term development predicated on the view that the principal donors are prepared to provide substantial additional resources over an extended period.

D. Ghanaian Aspirations and Strategy Options

As the horizon of the Ghanaian Government rises above the immediate problems at hand, its long-term aspirations begin to take shape. The principal characteristics are:

- Overriding preoccupation with achieving greater self-sufficiency in food production and the production of agricultural raw materials for domestic processing industries. Rapidly rising costs, largely caused by production and marketing problems of local foods, have intensified this concern with agriculture. Almost every institution in Ghana in one way or another has an agriculturally related component in hand or under planning. The Central Bank of Ghana has become a prime mover in agriculture policy and programs.

- A growing interest in the rural development dimensions -- health, feeder roads, rural water supply, adult education, cooperatives, agricultural credit -- of agricultural growth, stimulated by political pressures from the outlying regions.

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- A greater appreciation of the importance of foreign public and private capital to the achievement of their aspirations. This has been most notably reflected in the drive to get the $150 million bauxite mining - alumina processing enterprise under way -- a project which has been central in Ghanaian aspirations from the early days of the Volta River Development - Valco project. The desire for this new scheme has been a significant force in moderating the Government's actions on other external investment and financial matters.

- A recent awakening to the impact of accelerating power requirements on the long-term options for additional hydroelectric facilities. $130 million will need to be lined up in FY 1976 for the Kpong Dam; additional schemes in the $200-300 million range are becoming more urgent. The pressures for these vast schemes in turn will generate more intensive consideration of alternative uses of available water for power and/or irrigation in the poorer drought-prone areas of northern Ghana and neighboring Sahelian countries.

Underlying these aspirations is the continuing debate on the country's political-economic ideologic orientation which centers on the definition of self-reliance. Simply expressed, it is a debate between the advocates of statist-socialistic biases from the Nkrumah era and the advocates of a liberal economic (though now more assertive and nationalistic) philosophy. An interpretation of self-reliance from the socialist viewpoint carries with it an insistence on go-it-alone austerity which to a certain extent characterized the first year or two of the NRC's administration; it was saved from its severest economic consequences by the sudden rise in export earnings from the country's major exports. The liberal economic view has increasingly come to the fore as the longer term prospects of major new investments and growth become more attractive and the authoritarian discipline of a socialistic austerity less so. This movement is guided by leaders who are essentially pragmatic, learning their lessons in economics from what they find does or does not work. Their aspirations will draw them increasingly towards those development policies and programs which call for an expanding flow of external resources from private investment, external assistance and trade.

How will Ghanaians with this perspective before them view the strategy options outlined? Certainly Options One and Two will be viewed as a decline in U.S. interest in Ghana and a turning away from our policy of the post-1966 period. Option One is essentially the course followed during the bitterest days of the Nkrumah period apart from extraordinary commitment to the Volta River Dam - Valco Smelter projects. Option Two, while more positive, will not be considered significantly different and the time necessary for the refined advanced planning and implementation may undermine its more positive intent. Options Three and Four are more in line with Ghanaian expectations, arising from their own perception of the importance of the U.S. to Ghana's development and from their understanding of the assurances they received of U.S. support following a debt settlement. Option Four will appear less attractive until such time as the resource pinch becomes more sharply defined and felt. The fear of overly embracing foreign influence which could accompany Option Four and a current distaste for generalized commodity import loans will likely deter them from taking the lead in such a development strategy. The tension between its advantages and disadvantages may become significant as the implications of the $100 million annual gap sink in. The style and performance of the donor group, in the interim, will be the key to how Ghana copes with the tensions. Option Three would likely seem to the Ghanaians the most attractive. Its emphasis on sector development, particularly in agriculture, and subordinate but continuing concern for the constraining foreign exchange problem appears consistent with Ghanaian views of their priorities.

One vital characteristic of the Ghanaian position derives from their view of collaborative style. This view is rooted in their more assertive economic nationalism; it is reinforced by our own stress on greater LDC initiative in development planning and decision making. The hat-in-hand approach is out if it was ever in style. Ghanaian leaders in various regimes have stressed their preference for the donors to outline the level and focus of their interest first so that Ghanaian planning could then be adjusted accordingly. They have consistently resisted the Consultative Group concept which required Ghana to outline its development programs and self-help measures first to be scrutinized by the donors to determine whether they are worthy of support. The prevailing view calls for the donor to offer what it believes it can help with and on what basis; the Government will then decide whether to accept or reject. For Ghana, the collaborative style is at its best a process of mutual initiative with more stress on Ghana's molding donor proposals to fit its interests than the other way around. Strategy Options Three and Four will call for donor group initiative and flexibility.

E. Donor Community Interests and Assistance Strategies

Prior to the 1972 coup, the Donor Community under IBRD leadership was moving toward commitment to a major assistance program. The Consultative Group mechanism was to be employed to bring together the requirements and program of the new Development Plan with the commitment plans of the donors. Prospects of upwards to \$150 million in new assistance were anticipated. The donors included the IBRD, U.S., Germany, Canada, U.K., UNDP (TA only) as the major contributors, and a number of smaller donors including Italy, France, Denmark, Israel and Australia. The confrontation on the debt and participation issues and the NRC's strong aversion to multilateral arrangements with donors shelved indefinitely a revival of the Consultative Group.

From the U.S. viewpoint some such Consultative Group mechanism would be an essential precondition to assistance under Option 4. It would be desirable under Option 3 but not essential and could be more narrowly focused on agriculture and rural development programs. A Consultative Group under Options 1 and 2 would not likely be in our interests as it would expose us to pressures for levels of assistance we would not be prepared to provide. The absence of a Consultative Group does not preclude other forms of donor coordination, however. Active informal coordination takes place continuously among the donor representatives structured by monthly meetings. Sub groups have been formed on special program areas, particularly agriculture.

A central aim of the NRC when it took over the Government was to remove what they believed to be the excessive influence of foreign advisers and organizations -- bilateral and multilateral -- in macroeconomic policy formulation under the prior administration. Unfortunately, concurrent with this reaction during the first year or so, there was a lack of appreciation of the critical importance of sound fiscal, monetary and balance of payments policy and of systematic investment planning. Experience with the results of NRC's efforts reinforced by the impact of external factors restored some recognition of the significance of these policy areas and some cautious appreciation for external advice and assistance though severely circumscribed. In this circumstance, the IBRD, through its economic missions, reports and consultations and its resident senior economist, has sought to help the Ghanaian policy makers see the realities of their economic situation and the consequential actions necessary. No other donor has any involvement in this dimension of Ghana's development. The A.I.D. program has sought to strengthen the Ghanaians' own capabilities in this area owing to its critical impact on national development and significant achievements within the productive sectors. Carefully focused assistance as under the Economic Development Management project should be continued to broaden the base of trained and informed economic decision-makers and competent development planners. It would be an important component in working toward the objectives of Options 3 and 4, complementing the work of the IBRD and filling an assistance need not met by other donors. Similarly, advice and encouragement can evolve from the macro-policy implications of sector oriented activities.

The current plans of the major donors envision major commitments during FY 1975 and FY 1976. The greatest portion of this assistance is to be concentrated in the agricultural and rural development sector. The IBRD's pattern of assistance is concentrated on cocoa, palm oil, sugar, coconut, livestock and a cotton production-based integrated rural development scheme. The German Government is concentrating its assistance on an evolving rural development scheme centered on rice production in the Northern Region and to a lesser degree in the Upper Region; it is prepared to take on one similar additional region-based rural development scheme. The Canadians are interested in shifting more of their resources into rural development -- they now have a major village water supply program in the Upper Region -- but may be held by the Ghana Government to planned commitments in telecommunications, the Kpong hydroelectric dam, and highway rehabilitation in association with the IBRD. The U.K. program is as yet unformed. UNDP, while involved in a wide range of activities, has its largest program in maize development based in the four primary maize-producing regions. Programs of other donors in other areas of proposed A.I.D. assistance are negligible.

What do the above emerging patterns of other donor assistance suggest for A.I.D.'s development assistance strategy?

The level of resources planned and in process suggests that A.I.D.'s program will continue to be part of a major multilateral effort to assist Ghana. The U.S. will no longer be the major donor as the IBRD expands its program but will operate at a level closer to the other major bilateral donors. As the focus of donor attention narrows to problems of key sectors, the task of defining distinctive roles for each will become more complicated particularly as the focus is mainly in the agriculture - rural development sector.

Both the Germans, IBRD and UNDP are well established in area-based commodity production programs, some of which are being expanded to encompass rural development schemes. These programs are in areas of the poorer population. For example, the German program is particularly concentrated in the eastern half of the Northern Region and possibly the Upper Region. The IBRD integrated rural development scheme, now being developed, will cover the northwest corner of the Upper Region, extending into the Northern Region. The UNDP maize program has operations in the Brong-Ahafo, Ashanti, Central and Eastern Regions. A.I.D. programs still in the planning stage must be fitted into those of other donors already well advanced. Clearly these donors are not prepared to take on the full range of development activities required in their regions which are among the poorest in the country; opportunities for complementary programs are open in these areas.

Problems of available manpower and administrative capacity in the regions and donor sensitivity to distinctive identity for their programs make the conduct of complementary programs particularly delicate ones, however. At the same time that some elements of the Government want to move toward integrated rural development by region with donor assignment accordingly, other key officials are sensitive to the difficult political implications of such region-donor association. None of the principal donors, apart from A.I.D., appear to have in mind the national dimensions of the development effort, i.e., the strengthening of the national agency programs which must be linked with development efforts in the regions. A program which blends these two dimensions would appear an appropriate strategy for A.I.D.; it would help strengthen the work of other donor activity, and employ A.I.D.'s special experience and capabilities. It would be feasible under Option Three.

F. Level of Assistance and Alternative Strategies

The choice of strategy to a considerable degree will be influenced by the program preferences in A.I.D.'s mandate. There is little point in adopting a development assistance strategy that is incompatible with the primary mandate given A.I.D. Options Three and Four would call for Sector Resources Loans and, for Option Four, in addition, Program Loans to enable relatively rapid planning and implementation to meet the requirement for resource flows consistent with the developmental objective envisioned. Sector Loans and capital projects require longer lead times for planning; implementation extends over a longer period of years. The objectives which call for a concern with both growth and equity would not likely be achieved by the TC-Sector Loan aid instruments in Option Two. If, however, Program Loans are ruled out then the achievement of the Option Four objective is unlikely; there is no sector or project mechanism which will permit the rapid large-scale flow of resources required to achieve the growth objectives outlined in the IBRD projections. The size of Sector Resource Loans is constrained by the narrower programming limits implied in a sector focus.

Another factor bearing on the level of assistance stems from Ghana's relatively advanced development compared to the least developed countries in Africa. The IBRD has advised the Ghanaians that the amount of IDA term money will be available for Ghana at substantially reduced levels. Mixed IDA and conventional IBRD terms are likely to be the pattern of the future with the character of the project a key determinant. The large-scale financing envisioned for the Kibi bauxite mining infrastructure and for new power requirements is unlikely to attract the concessional financing Ghana would like. Other infrastructure schemes such as telecommunications and urban water systems will similarly be less attractive to concessional donors who are shifting their attention to agriculture and rural development and social service programs in general. Ghana will thus have to absorb a higher percentage of conventional IBRD-EXIM type financing along with continuing concessional lending for the less commercially oriented activities. Having just overcome a major debt servicing problem, this prospect will be painful, placing considerable pressure on A.I.D. and other concessional lenders.

G. West Africa Development and U.S. Development Assistance for Ghana

The implications of the choice of strategy option for Ghana go beyond Ghana itself. Future development in Ghana cannot go on isolated from neighboring countries; moreover, stepped-up growth in Ghana can contribute to the salvaging of the ravaged economies of nearby Sahelian countries. Ghana can become an important market, employer and food source for impoverished Upper Volta and other Sahelian countries. Ghana imports cattle worth several million dollars each year from the Sahelian countries. As its economy expands the demand for labor will grow as it has already in some Ghanaian agricultural areas. Substantial quantities of Ghana's food production move across the borders in response to high prices and ease of transport -- one estimate suggests that 10-20% of Ghana's expanded rice production is smuggled out of the country. This will inevitably increase as Ghana's agricultural development accelerates. Ghanaian manufacturers are meeting demands in the surrounding countries, e.g., textiles to Mali. Various studies have pointed out, however, that Ghana's internal economic difficulties -- its lack of growth, its overvalued cedi -- have isolated it from a greater involvement in West African development. Conversely, it is believed that significant growth in Ghana and a reordering of its external financial position could contribute to growth in neighboring countries. Parallel with this view is the conclusion that the Sahelian countries can only survive and develop in close association with the more prosperous, more developed and growing coastal states. Ghana, moreover, is becoming increasingly involved in regional schemes. It is a key participant in the onchocerciasis control program and in regional links in telecommunications, power and transport. It is an active supporter of the West African Economic Community. Future river development in northern Ghana will have important consequences for Sahelian countries.

Strategy Options One and Two preclude A.I.D.'s encouraging and supporting a greater Ghanaian contribution to West African regional development and support for the Sahelian countries. Option Three and particularly Option Four can, over the long term, make a distinct contribution, provided a regional perspective is built into the planning to resolve the problems of the tragically frail economies of the interior countries. In the same process its own people can come to share more equitably in a better life.

H. USAID Conclusions and Program Recommendations on U.S. Development Assistance Strategy

In considering the four strategy options, the USAID Mission recognizes that a number of variations in dollar levels and program instruments can be designed with differing shadings in justification. It believes the four options that have been laid out provide significantly different courses that could be followed as U.S. interests in Ghana and West Africa may dictate and Ghana's domestic performance justifies. A final conclusion on A.I.D.'s Development Assistance strategy will require further exchanges with the Ghana Government in the context of the Government's emerging development plan; however, guidance for these exchanges will be needed drawing on the USAID's presentation. In considering the options we should view them as objectives toward which we choose to work rather than as established programs for which necessary conditions have been satisfied and now exist.

We would seriously question the wisdom of Option One; it is a backward looking view insensitive to the nuances and trends and opportunities for development in the Ghanaian situation. It fails as well to appreciate Ghana's profound interest in and desire for American ideas, technology and relationships.

Option Four represents from a development economist's point of view, such as outlined by the IBRD, the strategy most likely to achieve the structural changes and economic reforms necessary to bring about the higher growth rates Ghana has been deprived of for the past decade. It provides the opportunity for building substantially greater equity into Ghana's development -- a course which would have to be purposely pursued or the attractions of capital-intensive investments would again distort the country's growth. It is the option most consistent with the aim of promoting Ghana's participation in and support to West African and Sahelian development, perhaps a primary justification for such a major U.S. program. By the end of FY 1975 Ghana could be and may be in the best position it has been in since the 1966 coup to launch a broad based growth with equity strategy. Many of the elements are falling into place -- debt burden cleared, large-scale external assistance pending, a healthier view of self-help evolving, and a new development plan being prepared. At the same time, however, the focus of international development concerns is shifting as is Ghana's view of itself in the international setting. The opportunity for Option Four, in spite of its merits, may have passed. For the donors, the problems arising from the interaction of population growth, food production and provision of social services and the concern for the poorer members of the society are concentrating attention on sectoral crises and the condition of the least developed countries. Ghana, for its part, hopes that a favorable balance in its export prices and import costs will be sustained to enable it to achieve by trade what it previously sought by aid. There is also the nagging doubt that Ghana has or will have the kind of leadership capable of providing the dynamic political environment required for such a strategy. Option Four should be put on the back burner; as events unfold it could again be appropriate.

There is merit in Option Two. It will not provide the level of resources, however, that could bring about a significant impact on basic sectoral problems and would not be supportive of a move to accelerated growth. It is well below the level of assistance Ghana expects from the U.S. as indicated by past U.S. performance. It will make little or no contribution in helping Ghana participate in easing the urgent development problems of the Sahelian countries. With tight funds and greater priority being given the least developed countries, it may, however, be the best option feasible.

Option Three provides, from the USAID Mission perspective, a particularly promising strategy. It would permit a concentrated and significant impact on Ghana's agriculture and rural development. It could help mobilize one of the most fundamental forces for development in Ghana -- the mass of the rural population and small farmers. It could pave the way for Ghana's contribution to easing the Sahelian problem with food, supplies, farm employment and markets. Its larger resource flow would help, in concert with other donors, stimulate movement toward a higher growth rate while giving equity concerns a primary thrust. Option Three is directly consistent with both A.I.D.'s and Ghana's current development interests. Once accepted in principle by A.I.D. as a feasible and appropriate strategy from its position, a dialogue with Ghanaian officials will be necessary to determine whether it is, in fact, practicable. The Mission believes, however, that step by step it is establishing the kind of working relationship which will permit effective collaboration. But this relationship will have to emerge over time built on a confidence that is based on our responsiveness to specific requests.

I. Program Content and Approach Under Option Three

The proposed development assistance program is concentrated in three sector areas: small farmer agriculture and related rural development, health services and population.

The small farmer agriculture and rural development emphasis envisions:

- concentrated attention on the problems of delivering basic agricultural inputs and services -- credit, seed, fertilizer, improved practices and appropriate technology -- to the small farmer, and the strengthening of storage, marketing and distribution services which have been identified as a primary constraint;

- the development of farmer associations and private agribusiness enterprises to enhance the linkage between agricultural services and the small farmers;

- intensified application of the above in one region (or part thereof) in an integrated rural development program, working, as much as possible, through existing Ghanaian institutions and organizations;

- the development of a permanent capability within Ghanaian institutions to train middle management staff for agriculture activities -- a major bottleneck to the expansion of Ghana's agriculture program.

In all of these activity areas, the intention, where requested by the Ghana Government, is to identify strategic points for assistance rather than presume a comprehensive involvement, e.g., institute small farmer action research extension programs, establish a fertilizer company for procurement, processing and marketing, expand the seed multiplication unit's operations, develop staff and provide working capital for additional branches of the Agricultural Development Bank, provide capital resources to strengthen input distribution services, storage and transport, and undertake an integrated rural development project in an area specified by the Ghana Government.

The second area of concentration is health with particular attention to the delivery of health services to the rural populations. The program envisions:

- the development of a planning unit and management system in the Ministry of Health;

- strengthening middle management particularly in regional operations;

- strengthening the logistic support system of transport, supplies, communications and basic equipment;

- intensive application of services in a selected region;

- more intensive applications of the nutrition factor in the planning of development activities especially with respect to the health of mothers and children in the rural areas.

The population program -- the third area of concentration -- continues along the lines of assistance already well established, i.e., support to the Ghana National Family Planning Program and to research on the interrelationships of low cost effective rural health/family planning delivery systems. Increased attention will be given to:

- intensifying the delivery of family planning services through an improved management of MCH and/or "free standing" clinics and of distribution of non-clinical contraceptives through commercial channels;

- developing an intensive area program in one region.

There are common program themes within these areas of concentration which characterize the proposed assistance strategy:

- First, there is a particular interest in strengthening management systems and capabilities essential to improving the delivery of services -- agricultural, health and family planning -- to the rural poor populations. The management factor (including operations planning) is perhaps the primary constraint in Ghana's development where other human and physical resources are available but poorly organized and directed. USAID's program interest in Ghana in education and human resources development lies primarily in this concern for management which is critical to ensuring development programs -- public and private -- reach and involve the poorer population groups.

- Second is the recognition that to be effective, the delivery of services from national agencies must be tied together in a region or smaller area focused on integrated rural development programs.

- Third, there is a recognition that even within integrated rural development schemes, non-governmental organizations, associations and programs have a vital role as a link between government services and the communities of rural poor. Because of the difficulties of servicing vast numbers of households and farms, the need for more intimate appreciation of local attitudes and customs, and the need to create an "attraction" force through organized community efforts, attention must also be given to building non-governmental organizations and programs in the villages.

- Fourth, the development of appropriate technologies through operational research in the local environment is essential to sustained improvements in these sectors. The Danfa Rural Health and Family Planning Research Project provides this dimension to the health and population programs. The Development Applications of Science and Technology Project will serve to reinforce agriculture and rural development activities as will other research efforts directed at particular agronomic and socio-economic problems of the small farmer.

The preliminary investigations of the Mission to date on women in the development process already demonstrate the particularly significant role of women in food production and distribution, and their active, if limited in numbers, participation in professional positions in the selected areas of concentration. The investigation also shows the cultural expectations that Ghanaian women, apart from their role as bearers of children, be economically active. Their subservient position in the society, however, results in their not being provided with the educational opportunities and technical services comparable to their responsibilities and roles in the economic processes of the country.

Levels of Assistance Under Option Three

The USAID recommends the following funding levels for planning purposes:

	FY 1975	FY 1976	FY 1977	FY 1978
Technical Cooperation and Development Grants	5,206	4,333	3,645	2,954
Sector Resources Loans		12,000	10,000-15,000	10,000-15,000
Title II (MCH)	1,336	1,641	1,810	2,000
	6,542	17,974	15,455-20,455	14,954-19,954

Technical Cooperation and Development Grants

The higher level for TC reflects the USAID effort to move the Ghana program into the mainline of A.I.D.'s new mandate. In FY 1976 approximately 50% (60% in FY 1975) is for programs in the food and nutrition category including the Science and Technology project under Selected Development Problems which will be concerned with aspects of agricultural development. This compares with less than 10% in FY 1974. About 30% in

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FY 1976 is for population programs and 10-15% for health. The large increase in FY 1975 reflects the advance funding requirements for several new projects. We anticipate that the actual level in FY 1975 may fall between $4-4.5 million as new projects are reviewed and initial implementation delayed. Funding for the TC/DG activities could include allocations from the Voluntary Agency set aside fund for the Farmer Association and Agribusiness Development Project and Sahel appropriations for the Savannah Desertification Study under the Development Application of Science and Technology Project.

Development Loans

The USAID Mission proposes for planning purposes an annual level in the range of $10-15 million for each fiscal year. In FY 1976 it is proposed that $10 million apply to an Agriculture Sector Resources Loan and $2.0 million for a Health Sector Resources Loan. These loans would provide a combination of local currency generations and commodity imports required by the sector. The loans would encompass an agreed set of subactivities associated with the A.I.D. Technical Cooperation program.

The following section provides summaries of the three sector assessments and a discussion of several related areas of program interest: education and human resources, science and technology, rural development and women in development and other A.I.D. activities in Ghana. Sector Assessment Annexes provide the full discussion on agriculture, health and population and a preliminary assessment on Ghana's women in development.

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